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CENTRAL INTELLIGENCE AGENCY

**Review of the World Situation
as it Relates to the Security
of the United States**

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17 December 1947

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE
SECURITY OF THE UNITED STATES

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GENERAL

1. *Political.* Since our last report (CIA 2, 14 November 1947), the Communists, under Soviet direction, have launched a concerted campaign of disorders, strikes, and sabotage in France and Italy. This development is the logical consequence of the Communist reversion from political action to militancy, discussed in CIA 2. The primary Soviet objective is to defeat the European recovery program by bringing about a sufficient degree of economic deterioration: (a) so greatly to increase the cost of the recovery program to the US that the US Congress and the public will reject it; and (b) to cause the collapse of the French and Italian centrist Governments. To obtain this objective, the USSR is risking the political popularity of the Communist Parties in France and Italy and will depend thereafter, if necessary, on a hard core of militants, possibly operating underground.

In France, the strong and effective measures of the Schuman Government have defeated a major Communist effort to wreck the economy of the country by strikes and sabotage. All non-Communist elements rallied behind the Premier, including an increasingly large segment of the General Confederation of Labor which revolted against its Communist leadership. The Communists are clearly not strong enough to stage either a general strike or a successful armed insurrection. The Schuman Government, however, still faces serious difficulties. It must carry through an effective anti-inflation program in the face of the almost certain re-emergence, after the current crisis, of the basic differences between the "controlled" and "liberal" economy elements in the coalition. It must also contend with renewed Communist efforts, although on a reduced scale, to curtail production through strikes and acts of sabotage.

In Italy, on the other hand, the Government has not yet faced a test similar to that from which the Schuman Government has now emerged. The strikes and demonstrations have been largely in the nature of probing operations. Opposed by less effective military and police forces and supported by a hard, well-organized core of former resistance troops, the Communists may attempt a general strike or an armed insurrection prior to the elections in March 1948. The ability of the Government to meet such a contingency is, at the moment, in doubt.

Note: The present text has been prepared after consideration of comments by the intelligence organizations of the Departments of State, the Army, the Navy, and the Air Force, on a preliminary draft.

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The danger to the European recovery program will not be averted merely by the maintenance in power of the present centrist Governments in France and Italy. The loss of production has already been serious. In both France and Italy, the Governments must prevent a further protracted period of industrial stoppages; otherwise, the rising cost of the recovery program to the US may place the whole program in jeopardy.

The overriding Soviet objective of defeating the European recovery program has contributed strongly to Molotov's recalcitrance and evasions in the CFM. It seems clear that the USSR has had no intention of permitting a settlement of the German and Austrian problems pending the outcome of the struggles in France and Italy and the debates in the US Congress. Hence, no major settlement in the current session of the CFM appears probable. The USSR, however, will seek to avoid a definitive break with the Western Powers.

The Soviet Government appears to be intensifying its propaganda and penetration efforts in the Far and Middle East.

An increase in Soviet activities in the Far East may be motivated in part by the Kremlin's desire to divert world attention from possible Soviet reverses in Europe or perhaps to induce the US to divert part of its efforts and resources from Europe to the East. It would not imply a relaxation of Soviet pressure in the West, but would reflect a logical appreciation of the fact that the highly chaotic and unstable conditions now prevalent in most Asiatic countries offer rewarding opportunities for the eventual expansion of Soviet influence.

While the tempo of the Soviet program in Asia will probably be stepped up, the pattern of that program is not likely to undergo any conspicuous change in the near future. It is doubted, for example, that the USSR has any immediate intention of altering its "correct" attitude toward such established sovereign governments as the National Government of China. The Soviet Union instead will probably give greater support and direction to the indigenous Communist elements in Asiatic countries and exploit to the full, both locally and in all UN bodies, the growing economic and political nationalism of dependent, recently liberated, and underdeveloped areas.

In the Middle East the USSR is resuming its pressure on Iran. It is evidently planning to exploit fully the Palestine situation and to make Palestine itself a base for more extensive subversive activities throughout the whole area. The Middle East, rather than the Far East, probably occupies second priority to Western Europe as an objective of Soviet expansion.

2. *Economic.* Economic conditions in most parts of the world have not improved in recent weeks. Civil disorders and strikes in France, Italy, India, and Pakistan threaten to cause further deterioration in those critical areas. Work stoppages in France have cost 2 million tons of coal, have reduced production in other industries by 25 to 50%, and have slowed the unloading and movement of goods from French ports.

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Overall production figures for France are expected to show a decline of 40% in November as compared with October.

In the United Kingdom and western Germany, however, coal production has shown a substantial increase and year-end targets will be approximated in both countries. This improvement in the coal situation has aided steel production which, in the United Kingdom, is now running slightly ahead of the target. Shipments of high-grade iron ore, now moving again to the Ruhr, as was customary in the prewar period, should increase the production of German blast furnaces.

The 1947 grain harvest in the USSR was better than in any year since the beginning of World War II. Thus far, relatively small quantities of grain have been exported or committed for export. It is probable that the Soviet Union is stockpiling grain for export in the late spring or early summer of 1948 at which time it can be used to better advantage politically than at present. Elsewhere the food situation remains unchanged.

France and Italy are using the last of their foreign-exchange resources, including the credits made available by the US. In the future, they will be dependent upon stop-gap aid to carry them until assistance becomes available under the proposed European recovery program.

PARTICULAR SITUATIONS IN EUROPE

3. *The United Kingdom.* The Labor Party's narrow victory in the recent significant Gravesend Parliamentary by-election confirms earlier evidence of a swing away from Labor, but it also indicates that the swing does not have the landslide proportions suggested by the preceding municipal elections. Among the national electorate, the Labor Party appears to retain a slender majority. The prestige and cohesion of the Government have improved as a result of the recent Cabinet changes and the increase in coal and steel production. Basically, however, the stability of the Labor Government rests on the ability of British industry to fulfill the Cripps export goals, the willingness of the people to accept a reduced standard of living, and the realization of substantial direct or indirect dollar benefits under the European recovery program.

4. *France.* The onset of Communist strikes and violence in France precipitated a Cabinet crisis which proved that no government could be formed on the basis of the Socialist policy of equal and open opposition to both Communism and Gaullism. Leadership thus passed to Robert Schuman of the MRP who, while ignoring the Gaullist issue, offered vigorous resistance to the Communist threat. Schuman received the support of all parties except the Communist in the passage of emergency legislation designed to facilitate the maintenance of order and the escape of French labor from Communist control. The non-Communist Left, however, was uneasy lest this legislation be turned against it in the event of De Gaulle's succession to power. To retain

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the essential support of the Socialists and of non-Communist labor elements, Schuman must exercise his present authority with great discretion.

The rank and file of French workers have shown a lack of enthusiasm for political strikes in which their national, class, and individual interests are sacrificed to Soviet purposes. The Communists were forced to combat a strong back-to-work movement by the use of "goon squads" and by increasing resort to sabotage. The French Army was able and willing to deal with an open Communist insurrection which now appears most unlikely. France has successfully passed its first real test against the economic power inherent in the Communist hold on labor.

As the Communists lose their popular following and their leadership of French labor, they will resort increasingly to violent acts of coercion and sabotage by trained and reliable, militant underground units. In this manner they may be able in some measure to injure the French economy and the European recovery program.

If Schuman can prevent further severe work stoppages, reconcile the divergent economic views in his coalition Government, and carry out an effective anti-inflation program, he may not only defeat the Communists but render unnecessary a Gaullist solution.

5. *Italy.* The first wave of Communist-inspired disorders in Italy has subsided, but the position of the De Gasperi Government is fundamentally weaker than that of the Schuman administration in France. The non-Communist political elements in Italy have been showing reluctance to resolve their differences, and De Gasperi has had no labor representation in his coalition; the Saragat Socialists and the Republicans, after long negotiations with De Gasperi, have only just agreed to enter the Government. The Nenni Socialists remain in alliance with the Communists; consequently, no independent labor organization and leadership are available to Italian workers who might otherwise resist Communist control. The Italian Army is less effective than the French in terms of leadership, and there is a prevailing shortage of arms, equipment, and fuel. As was illustrated in the disturbances at Milan on 28 November, the public is apathetic toward Communist incitement, but the Government may not be able to rely fully on the forces at its disposal to control the Communist militants.

The next phase of Communist operations apparently will be based on a demand for workers' (Communist) control of credit and of industrial production under the slogan "To the workers belong the factories." Such a demand could well be used to prepare the ground for a general strike. The response of the workers is problematical because, although the Italian workers, like the French, are weary of political strikes and demonstrations, the Communist slogan is appealing and there is no alternative labor leadership. The "patriotic front" for this second phase will probably be the numerous and well trained partisan groups which achieved considerable popularity through their war-time resistance activities.

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The 11 December general strike in Rome was the initial move in this new campaign. The Government acted more energetically and effectively than it had at Milan but at the same time was willing to compromise sufficiently to permit the strikers to save face. Once again, the move was essentially probing in character; the major test lies ahead and will probably come in the North where the Communists may anticipate help from their militant comrades in southern France and Yugoslavia.

6. *Germany.* As has already been indicated, the USSR has undoubtedly not been seeking an agreement on Germany in the CFM but stalling to await developments in France, Italy, and the US Congress. Molotov has been using the CFM as a sounding board in an effort to convince the Germans that the USSR is the sole champion of German nationalism. Concurrently, the Soviet-controlled SED Party in the Eastern Zone invited all political parties in Germany to meet in Berlin to petition the CFM to create a united German State. The fact that all non-Communist Parties in the Western Zones, and even the leader of the Christian Democratic Union in the Soviet Zone, refused to participate is a reflection not of any lack of desire for unity on the part of the Germans but of a continuing skepticism regarding unity on Soviet terms.

Current Soviet propaganda, however, may be directed primarily not at the present German political parties but at former Nazis, the military elements, and other nationalists who in the Soviet view might be willing ultimately to cooperate in leading a German nationalist movement under Soviet domination.

7. *Austria.* Soviet rejection in the CFM of a compromise solution on the crucial issue of Soviet claims to alleged German assets in eastern Austria and Soviet acceptance of the Austrian currency-conversion law are further indications that the USSR is continuing to rely chiefly on economic pressure in its attempt ultimately to reduce Austria to the status of a Satellite. However, the USSR is moving to consolidate its political control in eastern Austria, as indicated by its insistence that the Austrian Government appoint a provincial Communist police chief in the Soviet Zone of occupation.

8. *USSR.* The issuance of a new currency and the lifting of rationing is not indicative of an economic crisis in the Soviet Union. The currency conversion is designed to drain off the excessive number of rubles in circulation and to stabilize the currency of the USSR. This will make more effective the control of salaries, pensions, and commodity prices, and thereby enable the Government to increase both the supply and productivity of labor. With the purchasing power of workers, peasants and speculators more closely adjusted to the available supply of consumer goods, the Government can safely fulfill its repeated promises to lift rationing. Unless drastic reductions in wages ensue, some rise in the general standard of living in the USSR is probable.

However, the existence of sufficiently serious economic and political weaknesses to cause concern to the Soviet leaders is strongly implied in Malenkov's speech at the

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September 1947 meeting of the Cominform in Poland, which was only recently released in the Soviet press. These implied weaknesses are: lack of material and food reserves, a manpower shortage, serious shortcomings in fulfilling certain phases of the second year of the current Five-Year Plan, dependence upon certain vital imports, and the persistence, even among members of the Party, of capitalist ideology.

9. *The Satellite States.* In view of the strength of the non-Communists in Czechoslovakia, as indicated by their recent victories over the Communists, the Kremlin is not yet willing to risk the political and economic consequences of ordering the Czechoslovak Communists to use the ruthless tactics successfully employed in the other satellite countries. The final destruction of all non-Communist elements is nearing completion in Poland, however, where the Communists have finally wrested control of the country's largest agricultural cooperative from the Socialists and have paved the way for subsequent attacks on the Catholic Church by publicly accusing the two Polish Cardinals of associating with underground leaders. Meanwhile, political and economic coordination among the Soviet Satellites in southeastern Europe is being further developed. The mutual assistance pacts signed by Yugoslavia with Bulgaria and Hungary will soon be followed by a similar pact between Yugoslavia and Rumania and will be supplemented by increased economic coordination, with Yugoslavia gradually emerging as the dominant satellite in southeastern Europe.

10. *Trieste.* The Yugoslavs have intensified their efforts to penetrate the US-UK Zone in Trieste. The current virulent propaganda attacks appear preliminary to a Communist-instigated general strike. Because of the high incidence of unemployment and the generally depressed economy in the US-UK Zone, such a strike will probably receive substantial popular support.

THE NEAR AND MIDDLE EAST

11. *Greece.* There is no evidence that the Greek Army's winter offensive will materialize this month as planned, but it is likely that the skirmishing which has characterized military operations during the past few weeks will soon develop into more concerted action. The Army will be forced to make at least local offensives, and the guerrillas, having completed their winter regrouping, are in a position to extend the scope and size of their attacks. Neither side, however, is believed capable of obtaining a decisive victory in the near future.

Satellite and Greek Communist leaders may well feel that more spectacular successes have become necessary, particularly to counter the psychological effect of the announcement that US Army officers are to give tactical advice to the Greek Army. In the satellite states there has been a marked increase in the organization of both overt and covert aid for the guerrillas. Soviet-controlled representatives have arrived at the headquarters of General Markos in Greece; others apparently have assumed

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virtual control of the KKE (Communist) Central Committee. The participation of foreign combat personnel on the guerrilla side appears imminent.

Meanwhile, developing disharmony within the Populist-Liberal Government may eventually result in the downfall of the coalition government. This disharmony, the indecisive military activity, and the slow implementation of AMAG economic measures have induced a general loss of confidence and, in turn, a run on gold which will cause a new and disastrous inflation if not quickly checked.

12. *Palestine.* The "spontaneous rioting" which has characterized the initial Arab reaction to the UN decision to partition Palestine will probably continue through the winter. Concerted military action by the Arabs will probably be delayed until spring when the British withdrawal (scheduled to begin early in 1948) should be well under way. Faced with rapidly increasing anti-US feeling, executives of US oil companies in the Middle East believe that they may be forced to suspend operations. At this juncture, however, King Ibn Saud seems to be seeking some sort of compromise position whereby he may still maintain, along with other Arab States, his opposition to the formation of a Jewish state, yet refrain from undertaking economic reprisals against the US.

The Arabs not only have no intention of establishing a separate government in the Arab-state sections of Palestine marked out by the UN, but they will also boycott all efforts of the projected five-nation commission to take over authority from the British and transfer it to the new Arab and Jewish states.

There is increasing evidence that the USSR intends to utilize Palestine as a base for penetration of the Middle East. The Turks in particular are concerned by this prospect. If the UN decides to send troops to Palestine, the Soviet Union will undoubtedly seek to include elements specially trained in Soviet subversive activities. If the US also sends troops to enforce the partition, the USSR will make every effort to involve the US in embarrassing situations and to increase the anti-US sentiment that is already strong among the Arabs.

13. *Iran.* The USSR is again subjecting Iran to strong pressure. The belated Soviet reaction to Iran's rejection of the proposed oil agreement has been emphatic. Having charged the Iranian Government with hostile action, the USSR now is intensifying its propaganda program and its subversive activities directed against Iran. Direct Soviet action at this time seems unlikely. However, there is the possibility of a drive into Azerbaijan and other northern provinces by dissident Iranian and native elements now in adjacent Soviet territory. If such a move is carried out without material Soviet assistance, it could probably be contained by the Iranian Army.

Dissension and factionalism in the Iranian Government over domestic policies have resulted in the resignation of Prime Minister Qavam following his failure to obtain a vote of confidence in the Majlis on 10 December. Qavam still leads the largest

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single bloc in the Majlis. If he can keep his deputies in line, the strong opposition thus formed will be in a position to obstruct the operation of any government inimical to Qavam, and Iran's ability to cope with Soviet subversive activities will be correspondingly weakened.

14. *India-Pakistan.* Although relations between India and Pakistan have improved enough so that the two dominions now appear disposed to settle certain of their differences by arbitration, the basic causes of friction remain unchanged and eventual conflict between the dominions remains a possibility.

A significant shift appears to have occurred recently in India's position with respect to the US and the USSR. Pandit Nehru, who is believed at one time to have favored a pro-Soviet alignment, is now declaring publicly that India for the present will maintain strict neutrality between the US and the USSR. Sentiment apparently is increasing in India that cooperation with the US promises the better protection for Indian interests.

THE FAR EAST

15. *China.* The Chinese National Government faces its most critical period during the coming winter. Its military position has been weakened by an increase of Chinese Communist strength in central China and by the threat that the Communists will be able to expand still farther southward, thus undermining the base of the Nationalist supply system. Moreover, the shifting of the center of military activity to central China has reduced the Government's ability to withstand the Communist offensive in Manchuria which may develop this winter, although probably not until Nationalist-held ports in that area have become ice-bound. The economic position of the Government remains critical. Although the rapid depreciation of the Chinese dollar has recently been checked, a new crisis is likely to develop if substantial US economic assistance is not assured at an early date.

Despite the present precarious position of the National Government, the USSR is probably not ready to abandon its "correct" attitude. The USSR is not likely to give open assistance to the Chinese Communists because it would undoubtedly arouse Chinese antforeign sentiments and would thus impede Communist progress. The USSR, in fact, has recently made conciliatory gestures toward the National Government at the same time that it was reported putting strong pressure on that Government to support the Soviet position on a Japanese peace treaty.

16. *Japan.* The USSR clearly believes that the US intends to make Japan a strong springboard against the Soviet Union. Therefore, the USSR will not at present attend the prospective Japanese peace treaty conference unless it can retain a veto to insure the defeat of any proposal to which it has serious objections. The Kremlin realizes, however, that insistence upon a veto may lead to a deadlock which would probably

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nated anti-Communist action throughout the hemisphere and the continuing tendency of Latin American governments to take anti-Communist action on their own initiative. This increase in anti-Communist activity, however, is not wholly the result of a genuine and growing hostility to the Soviet Union; it stems in part from a desire to win favor and possible financial assistance from the US. Recent developments also indicate that the USSR now probably believes both that its efforts to counterbalance US influence in Argentina have failed and that Argentina is firmly committed to a pro-US orientation.

Organized resistance to Communist influence in Latin American labor is increasing among socialist and other left-wing groups. Nevertheless, there is still no reason to believe that the Communists in Latin America have suffered any substantial loss in absolute strength or that Communist capabilities for espionage and sabotage in this area have been materially reduced.

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